



Office of the City Auditor and Clerk

Risk Management Liability Claims Administration Audit # EX 10-01

Executive Summary Audit Report

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AUDIT PURPOSE

This audit was added to the 2009-2012 Internal Audit Schedule to review claim administration practices for self-insured vehicle, general and police liability claims. The Risk Management Division has not been audited by Internal Audit in the last decade.

AUDIT SCOPE

The audit scope consisted of reviewing documentation and observing claims administration practices for self-insured fleet, general and police liability claims for the three year period from October 1, 2007-September 30, 2009. Claim administration procedures for workers' compensation liability, employment Practices liability and various other types of liability claims were outside the scope of this audit.

REPORT CONTENT AND LIMITATION OF USE

This executive summary is limited in detail. In order to obtain the full background on a particular item, please refer to the detailed audit report or contact Internal Audit prior to drawing conclusions based on the limited information contained in this report. Objective ratings indicate the levels at which the the audit objectives were met.

AUDIT OBJECTIVES

Based on testing performed, Internal Audit rates the attainment of audit objectives at the following levels:

Audit Objectives	Objective Ratings*		
1. Determine whether adequate controls have been implemented to address risks;	Green	X	Red
2. Determine whether changes in internal controls have been established/implemented since the 2009 Risk Assessment; and	Green	X	Red
3. Determine whether management has accepted a level of risk that may be acceptable to the organization.	Green	X	Red

*Please see **Exhibit A** for further description of rating definitions.

AUDIT OBSERVATIONS AND RECOMMENDATIONS

Internal Audit's observations and recommendations of a medium or high priority level are summarized in the table beginning on **page five**.

Internal Audit observations which are classified as routine in nature do not appear in this report, but have instead been provided directly to the Department Director.

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Audit # EX 10-01 Observations, Recommendations and Proposed Management Actions				
Observation/Recommendation/Priority	Concur	Do not concur	Proposed Management Action	Committed Management Action Date
<p>1. Observation-The Risk Management Division does not have formal written policies and procedures. Policies and procedures should fully address claims administration methodologies including steps to be taken during claims investigations, acceptance/rejection of liability, file reserving and subrogation/recovery efforts.</p> <p>Recommendation-Develop formal written policies and procedures to ensure consistency and completeness in claim administration.</p> <p>Priority-High</p>	X		Risk Management has developed a written policy draft and is currently reviewing and making comprehensive enhancements to the draft for claims administration as well as subrogation steps.	June 1, 2010
<p>2. Observation-The Risk Management Division could utilize web technology to streamline the claims reporting process. Risk Mangement Division staff primarily enter files received via phone, fax, in person or via e-mail into a spreadsheet to track claims.</p> <p>Recommendation- Offer the public the opportunity to file claims through the City Website electronically. This method should be accompanied by a frequently asked questions (FAQ) page-perhaps in English and Spanish on the website explaining the most common types of claims (e.g. slips and falls, potholes, water/sewer damage, etc.) and how they are handled. A properly developed informational intake page may serve to reduce staff time on verbal claims intake, reduce the number of nuisance claims and standardize claim information required and provide written evidence in the event of claimant fraud.</p> <p>Priority-Medium</p>	X		<p>Risk Management will continue to explore other public entities for best-in-class online liability claims reporting capability.</p> <p>Security/exemption standards are being reviewed to ensure that confidential information is protected pursuant to Federal and State law.</p>	May 1, 2010

Audit # EX 10-01 Observations, Recommendations and Proposed Management Actions

Observation/Recommendation/Priority	Concur	Do not concur	Proposed Management Action	Committed Management Action Date
<p>3. Observation- The Risk Management Division does not currently utilize automated risk management software to record, track or manage claims.</p> <p>The Risk Management Division relies upon manual files and Excel spreadsheets stored on the network, which may not be readily accessible during a disaster. Risk Management duties would increase in importance after a disaster due to the increased use of law enforcement, opportunities for auto accidents and general liability claims (as well as workers' compensation claims).</p> <p>Recommendation-Consider purchasing a Risk Management Information System (RMIS) that would allow tracking and trend analysis for incidents and claims by type and provide the Risk Management and City Attorney staff with access. Establish claim reserves and include payment data so that the full cost of claims is tracked and claim development can be monitored. While this will involve an initial capital outlay and to a lesser extent annual maintenance fees, the efficiencies and claims management opportunities provided by this system if properly implemented should result in long term savings over a period of years.</p> <p>The claims system should also include a historical database of commercial policy information including deductible levels for program financial analysis and evaluating the effectiveness of self-insuring at various retention levels.</p> <p>Priority-High</p>	X		<p>If funds can be secured in the FY 2011 budget, Risk will issue an RFP to purchase a web-based system.</p> <p>System implementation will be phased throughout 2010 and 2011.</p> <p>In the interim, Risk is exploring the possibility of temporarily utilizing a Windows-based data management system.</p>	April 15, 2010

EXHIBIT A

Internal Audit Rating System

The audit ratings listed below are based on the auditor's assessment of whether the audit objectives have been met.

Red- A red control objective rating denotes significant business risk or exposure to the City that requires immediate attention and remediation efforts. The controls reviewed do not appear to provide reasonable assurance that the control objectives are being met. The City is being exposed to a high level of business risk and exposure. Management is advised to immediately review the design and effectiveness of existing controls or consider implementing new or additional controls.

Yellow- A yellow control objective rating denotes opportunities for improvement exist relating to the controls reviewed. If this state of control is not improved, it could lead to a higher than acceptable level of business risk or exposure to the City. The controls reviewed provide some, but not sufficient assurance that control objectives are being met. Management is advised to review the design and effectiveness of existing controls or consider implementing new or additional controls on a priority basis.

Green- A green control rating objective indicates that the controls reviewed at the time of the audit indicated a satisfactory or acceptable state of control, where risk appears to be minimized and appropriately managed. Controls reviewed appear to provide a high degree of assurance that control objectives are being met. To maintain this rating management is advised to continue to assess the control systems and monitor existing controls for efficiency and effectiveness as business and organizational changes occur.